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C O N F I D E N T I A L TAIPEI 003623

SIPDIS

DEPT PASS TO AIT/W AND USTR
DEPT FOR EAP/TC, EAP/EP AND EB/IFD/OIA
TREASURY FOR OASIA ZELIKOW, WISNER AND OCC AMCMAHON
TREASURY ALSO PASS TO FEDERAL RESERVE BOARD OF GOVERNORS,
SAN FRANCISCO FRB AND NEW YORK FRB

E.O. 12958: DECL: 08/28/2020

TAGS: [ECON](#) [EINV](#) [PINR](#) [PREL](#) [TW](#)

SUBJECT: TAIWAN MINIMUM TAX: FICTION TRUER THAN FACT

REF: TAIPEI 3390

Classified By: AIT DIRECTOR DOUGLAS PAAL, REASON 1.5 B/D

1. (C) Summary: Corning, the largest U.S. investor in Taiwan, privately denied press reports that it would shift planned investment to South Korea over pending tax changes. Taiwan's Executive Yuan (EY) and Legislative Yuan (LY) DPP caucus held on August 29 reached a compromise on the tax bill that should satisfy Corning's main concern. However, the bill still must be reviewed by the entire LY and may be modified again. End summary.

2. (C) AIT FCS spoke with Corning Display Technologies Taiwan (Corning) CFO Joanne Zhang regarding an August 29 report in the "Commercial Times" that Corning might relocate its third glass furnace to South Korea if its investments were not exempted from a proposed alternative minimum tax (AMT). Zhang said the story was based only on the newspaper's own speculation, not statements from Corning. Zhang did not say the newspapers speculation was incorrect, but only that no one at Corning had said it. Corning has indicated (reftel) that it considered the original bill a retraction of incentives Taiwan used to attract Corning to invest in Taiwan.

3. (C) The August 29 coordination meeting between the EY and the LY DPP caucus, presided over by Vice Premier Wu Rong-I, reached a compromise on the contents of the bill. The revised bill preserves Corning's most important priorities: the five-year tax break and four-year phase-in of the AMT. However, the EY caved to DPP pressure on the less critical issue of starting the tax rate for businesses at 10%.

4. (C) The compromise waives the tax for up to four years on high-tech investment projects approved prior to implementation of the tax. These projects will continue to enjoy the current five-year tax holiday. Zhang indicated to AIT that this arrangement would satisfy Corning's main concern.

5. (C) Comment: While the EY has made good on reftel promise to deliver a tax bill that resolves the issues of Corning and other foreign investors in similar positions, the bill still must be reviewed by the entire LY and is likely to be the subject of heated debate there. Opposition PFP LY members have told AIT they view the government budget deficit as the most pressing economic problem that Taiwan faces, and may seek to remove tax holidays from the bill. However, as the false, but un-refuted, Commercial Times article about Corning pointed out, removing tax incentives for high-tech investment will cause many investors to think harder about investing in Taiwan. End comment.
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